ALAMEDA COUNTY
CONGESTION MANAGEMENT AGENCY

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MEMORANDUM

February 9, 2009
Agenda Item: 3.2

DATE: January 26, 2009

TO: Administration and Legislation Committee

FROM: Dick Swanson, Director of Finance and Administration

SUBJECT: Adoption of Annual Investment Policy

Action Requested

The State law requiring each local government to annually adopt an investment policy and present quarterly investment reports to their legislative bodies was made permissive rather than mandatory in 2006. However, staff believes the practice is a good one and should be continued. The Agency's Investment Policy was last updated and adopted by the Board of Directors on February 28, 2008. The Policy for FY 09/10 is attached and presented for re-adoption.

Discussion

The Agency's Annual Investment Policy was reviewed by several public sector investment managers for completeness and currency. As a result, no changes were or are recommended.

By way of background, In September 2005, the Agency elected to directly invest Exchange Fund reserves for periods of between three and six months because yields on permitted investments were significantly higher than those achievable through LAIF, where the Agency had historically held virtually all of its funds. However, during the previous year, as the CMA's investments have matured, they have been transferred back to LAIF since the interest rates obtainable through LAIF exceed what can be earned through direct investments during a declining interest rate environment.

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Alameda County
Congestion Management Agency

Annual Investment Policy

Adopted

By the

Board of Directors

On

February 26, 2009

ALAMEDA COUNTY CONGESTION MANAGEMENT AGENCY

ANNUAL INVESTMENT POLICY

TABLE OF CONTENTS

I. INTRODUCTION

The purpose of this policy is to assure a prudent and systematic investment program and to organize and formalize investment-related activities.

All funds shall be invested in accordance with this Annual Investment Policy. The Annual Investment Policy is based on the California Government Code Sections 16429.1 and 53601 et seq. (herein after referred to as the "Code") related to the investment of public funds and prudent money management.

II. SCOPE

It is intended that this Annual Investment Policy cover all funds and investment activities under the direction of the Agency.

III. PRUDENCE

The standard of prudence to be used by investment officials shall be the "prudent person" standard (California Government Code Section 53600.3), which states, "Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived."

The overall investment program shall be designed and managed with a degree of professionalism that is worthy of public trust. The Agency shall recognize that no investment is totally risk less and that the investment activities of the Agency are a matter of public record. Investment officers acting in accordance with this investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

IV. OBJECTIVES

The primary objectives, in priority order, of the Agency's investment activities shall be:

1. Safety. Safety of principal is the foremost objective of the investment program. The Agency's investments shall be undertaken in a manner that seeks to ensure preservation of capital in the portfolio.

2. Liquidity. The Agency's investment portfolio shall remain sufficiently liquid to enable the Agency to meet its cash flow requirements.

3. Total Return on Investment. The Agency's investment portfolio shall be designed with the objective of attaining a market rate of return on its investments consistent with the constraints imposed by its safety objective and cash flow considerations.

Safety of principal is the primary objective of the Agency. Each investment transaction shall seek to ensure that large capital losses are avoided from securities or broker-dealer default. The Agency shall seek to ensure that capital losses are by adhering to the investment goal of holding investments to maturity. The Agency shall seek to preserve principal by mitigating the two types of risk, credit risk and market risk.

Credit risk, the risk of loss due to failure of the issuer of a security, shall be mitigated by investing in only permitted investments and by diversifying the investment portfolio according to this Annual Investment Policy.

Market risk, the risk of market value fluctuations due to overall changes in the general level of interest rates, shall be mitigated by matching maturity dates, to the extent possible, with the Agency's expected cash flow draws. It is explicitly recognized herein, however that, in a diversified portfolio, occasional losses are inevitable and must be considered within the context of the overall investment return.

V. DELEGATION OF AUTHORITY

The management responsibility for the investment program is hereby delegated to the Executive Director who shall monitor and review all investments for consistency with this investment policy. The Executive Director may delegate responsibility for day-to-day management of the portfolio. No person may engage in an investment transaction except as provided under the limits of this policy. The Executive Director may also delegate the investment decision making and execution authority to an investment advisor. The advisor shall follow this policy, which has been approved by the Board of Directors and such other written instructions as are provided.

VI. ETHICS AND CONFLICT OF INTEREST

Officers and employees involved in the investment process shall refrain from personal business activities that could conflict with proper execution of the investment program, or which could impair their ability to make impartial decisions. Agency employees and officers involved in the investment process shall disclose to the Executive Director any material financial interests in financial institutions that conduct business with the Agency, and they shall further disclose any personal financial/investment positions that could be related to the performance of the Agency's portfolio.

VII. INTERNAL CONTROLS

The Executive Director or his designee shall establish a system of internal controls, which shall be documented in writing. The controls shall be designed to prevent losses of public funds arising from fraud, employee error, and misrepresentations by third parties and imprudent actions by employees or officers of the Agency. The internal controls shall be reviewed with the Treasurer/Auditor and the independent external auditor. The Treasurer/Auditor shall perform a review of the internal controls at least on an annual basis.

VIII. PERMITTED INVESTMENT INSTRUMENTS

The Agency's policy is to invest only in instruments as permitted by the Code, subject to the limitations of this Annual Investment Policy. Permitted investments for Board designated "Operating Funds", unless otherwise specified, are subject to a maximum stated term of 180 days. Permitted investments under Board designated "Reserve Funds", unless otherwise specified, are subject to a maximum stated term of up to three years. The Board of Directors must grant express written authority to make an investment or to establish an investment program of a longer term.

Maturity shall mean the stated final maturity of the security, or the unconditional put option date if the security contains such provision. Term or tenure shall mean the remaining time to maturity when purchased. Credit criteria listed in this section refer to the credit of the security or the issuing organization at the time the security is purchased.

Permitted investments shall include:

1. U.S. Treasury Obligations: United States Treasury notes, bonds, bills or certificates of indebtedness, or those obligations for which the full faith and credit of the United States are pledged for the payment of principal and interest.

2. Obligations of Federal Agencies and U.S. Government Sponsored Enterprises: Obligations issued by Banks for Cooperatives, Federal Land Banks, Federal Intermediate Credit Banks, Federal Farm Credit Banks, Federal Home Loan Banks, the Federal Home Loan Bank Board, the Tennessee Valley Authority, or in obligations, participation's, or other instruments of, or issued by, or fully guaranteed as to principal and interest by, the Federal National Mortgage Association; or in guaranteed portions of Small Business Administration notes; or in obligations, participation's, or other instruments of, or issued by, a federal agency or a United States government-sponsored enterprise, or such agencies or enterprises which may be created.

3. State of California Obligations: Registered state warrants, treasury notes or bonds of the State of California, including bonds payable solely out of revenues from a revenue-producing property owned, controlled, or operated by the state or by a department, board, agency or authority of this State.

4. Local Agency Obligations: Bonds, notes, warrants or other evidences of indebtedness of any local agency of the State, including bonds payable solely out of revenues from a revenue-producing property owned, controlled, or operated by a local agency or by a department, board, agency or authority of a local agency. Such obligations must be rated A-1/P-1, or equivalent or better short-term; or Aa/AA or better long term by two national rating agencies.

5. Bankers' Acceptances: Bills of exchange or time drafts drawn on and accepted by domestic or foreign banks, which are eligible for purchase by the Federal Reserve System, the short-term paper of which is rated in the highest letter and numerical rating (A-1/P-1) by Moody's Investors Services and by Standard & Poor's Corporation.

   Purchases of Banker's Acceptances may not exceed 180 days maturity or 25 percent of the Agency's portfolio. No more than five percent of the Agency's portfolio may be invested in the Banker's Acceptances of any one commercial bank.

6. Commercial Paper: Commercial paper of "prime" quality of the highest ranking or of the highest letter and numerical rating (A-1/P-1) as provided by Moody's Investors Service, Inc. and Standard & Poor's Corporation; provided that the issuing corporation is organized and operating within the United States, has total assets in excess of $500 million and has an "A" or higher rating for its long-term debt, if any, as provided by Moody's or Standard & Poor's.

   Purchases of eligible commercial paper may not exceed 270 days maturity nor represent more than 10 percent of the outstanding paper of an issuing corporation.

   Purchases of commercial paper may not exceed 25 percent of the Agency's portfolio. No more than five percent of Agency's portfolio may be invested in Commercial Paper of any one corporation pursuant to this section.

7. Repurchase Agreements: Investments in repurchase agreements and reverse repurchase agreements may be utilized only as short-term investments, not to exceed 90 days.

   Repurchase agreements may be utilized only when all of the following conditions are met:

   (a) The term of repurchase agreements shall be for 90 days or less.

   (b) The Agency shall have properly executed a Public Securities Association (PSA) Master Repurchase Agreement with each firm with which it enters into Repurchase Agreements.

   (c) Repurchase agreements shall only be made with counterparties that are primary dealers of the Federal Reserve Bank of New York rated "A1", "AA" or better by two nationally recognized rating services.

   (d) The market value of securities that underlay a Repurchase Agreement shall be valued at 102 percent or greater of the funds borrowed against those securities and the value shall be reviewed weekly unless market conditions warrant daily valuation. Each time there is a substitution of collateral, the market value must be calculated and the Agency must be notified of the substitution.

(e) Collateral shall be limited to obligations of the U.S. Government and its agencies and U.S. Government sponsored enterprises as described in #1 and #2 of this section.

(f) Collateral shall be delivered to a third party custodian in all cases, and the Agency shall obtain a perfected first security interest in all collateral.

8. Corporate Notes: Medium-term corporate notes of a maximum of five years maturity issued by corporations organized and operating within the United States or by depository institutions licensed by the U.S. or any state and operating within the U.S. Notes eligible for investment shall be rated in a category "A" or its equivalent or better by a nationally recognized rating service.

   Purchase of medium-term corporate notes may not exceed 30 percent of the Agency's portfolio and shall be limited to five percent in any one issuer.

9. Insured Savings/Money Market Accounts: Federal Deposit Insurance Corporation (FDIC)-insured savings accounts or Securities and Exchange (SEC)-registered money funds.

10. Negotiable Certificates of Deposit or deposit notes issued by a nationally- or state-chartered bank or a state or federal savings and loan association or by a state-licensed branch of a foreign bank. Such obligations must have long-term ratings of Aa/AA or better by two national rating agencies.

    Purchases of negotiable certificates of deposit may not exceed 30 percent of the Agency's portfolio and shall be limited to five percent in any one issuer. (Deposit notes and bank notes shall be included with negotiable certificates of deposit in calculating allowable maximum percentages.)

11. Mortgage and Asset-Backed Obligations: Any mortgage pass-through security collateralized mortgage obligation, mortgage-backed or other pay-through bond, equipment lease-backed certificate, consumer receivable-backed bond of a maximum of five years maturity. Such obligations must be rated Aa/AA or better long term by two national rating agencies and the issuer of such obligations must be rated Aa/AA or better by two national rating agencies. Purchases of securities authorized by this section may not exceed 20 percent of the Agency's portfolio, which may be invested pursuant to this section and shall be limited to five percent in any one non-governmental issuer.

12. Mutual Funds: Shares of beneficial interest issued by diversified management companies, as defined in Section 23701m of the Revenue and Taxation Code, investing in the securities and obligations authorized by sections a through 1 of Government Code

section 53601. To be eligible for investment pursuant to this subdivision these companies shall either: (1) attain the highest ranking letter or numerical rating provided by at least two of the three largest nationally recognized rating services or (2) have an investment advisor registered with the Securities and Exchange Commission with at least five years experience investing in securities and obligations authorized by Government Code Section 53601 and with assets under management in excess of $500,000,000. The purchase price of shares of beneficial interest purchased pursuant to this subdivision shall not include any commission that these companies may charge and the Agency may not use any fund that assesses fees for deposits or withdrawals.

The purchase price of shares shall not exceed 20 percent of the Agency's portfolio.

13. State of California's Local Agency Investment Fund (LAIF): In accordance with Section 16429.1 of the California Government Code, the Agency may invest up to the maximum amount permitted by law in LAIF. The LAIF portfolio, including its average maturity, credit quality and Investment Policy shall be reviewed annually.

IX. INELIGIBLE INVESTMENTS

Any security type or structure not specifically approved by this policy is hereby specifically prohibited. Security types which are prohibited include,

1. Inverse floaters, range notes, dual index notes, leveraged or deleveraged floating-rate notes, or interest-only strips that are derived from a pool of mortgages.
2. Any security that could result in zero interest accrual if held to maturity.
3. Any security with an unusually high degree of interest rate sensitivity or credit risk.
4. Any security that is foreign currency denominated.

X. RATING DOWNGRADES

The Agency may from time to time be invested in a security whose rating is downgraded. In the event of a downgrade, the Executive Director or his designee shall report the downgrade to the Board at the next scheduled presentation of the portfolio. In the event of a downgrade below the minimum credit rating criteria permitted by this investment policy, the designated investment manager shall immediately report the downgrade to the Executive Director. The Executive Director or his designee shall report to the Board, at their next regularly scheduled meeting, both the downgrade and the action that has been taken.

XI. DIVERSIFICATION

Investments shall be diversified to eliminate the risk of loss resulting from over concentration of assets in a specific maturity, specific issue, or specific class of securities. Diversification limits ensure the portfolio is not unduly concentrated in the securities of one type, industry, or entity, thereby assuring adequate portfolio liquidity should one sector or company experience difficulties.

INSTRUMENTS	Maximum % of Portfolio at Time of Purchase
A. U.S. Treasuries (including U.S. Treasury Coupon and principal STRIPS)	100% (Code)
B. Federal Agencies and U.S. Government Sponsored Enterprises	100% (Code)
C. State of California and Local Agency Obligations	25% (Code 100%)
D. Bankers Acceptances	30% (Code 40%)
E. Commercial Paper	25% (Code)
F. Negotiable Certificates of Deposit	30% (Code)
G. Repurchase Agreements	100% (Code)
H. Corporate Securities/ Certificates of Deposit	30% (Code)
I. Mutual Funds	20% (Code)
J. Mortgage and Asset-backed Securities	20% (Code)
K Money Market Funds	20% (Code)

Issuer/Counterparty Diversification Guidelines – The percentages specified below shall be adhered to on the basis of the entire portfolio:

i. Any one Federal Agency or Government Sponsored Enterprise 35%

ii. Any one repurchase agreement counterparty name:
If maturity/term is ≤ 7 days 50%
If maturity/term is > 7 days 25%

Issuer/Counterparty Diversification Guidelines for All Other Securities described in Subsections A-K in VII. Permitted Investments of this Annual Investment Policy:

i. Any one corporation, bank, local agency, or other corporate name for one or more series of securities, and specifically with respect to special purchase vehicles issuers for mortgage and asset-backed securities, the maximum applies to all such securities backed by the same type of assets of the same issuer. 5%

XII. QUALIFIED DEALERS

The Executive Director, or his or her designee, shall maintain a list of financial institutions qualified to do business with the Agency. Banks and broker/dealers will be selected on the basis of creditworthiness, experience, and capitalization. Prior to approval, they must read and sign the Agency's Broker/Dealer Questionnaire and Certification.

XIII. MAXIMUM MATURITY

To the extent necessary, the Agency shall match investments with anticipated cash flow requirements. Investment maturities greater than three years require approval of the Treasurer/Auditor. Long-term securities of more than one year shall be limited to 40% of the portfolio.

XIV. REPORTING REQUIREMENTS

In accordance with Government Code Sections 53600 through 53609, the Executive Director or his designee may annually render to the Board a statement of investment policy, which the Board may consider at a public meeting.

The Executive Director shall, quarterly, render an investment report to the Board of Directors. The quarterly report shall be submitted within 30 days following the end of the quarter. The following shall be included, if applicable.

- Type of investment instrument (i.e. Treasury Bill, medium-term note)
- Issuer names
- Purchase date (trade and settlement date)
- Maturity date
- Par value
- Purchase price
- Coupon rate
- Overall portfolio yield based on cost
- Yield to Maturity
- Book value
- Current market value and the source of the valuation
- Current credit rating of each security other than U.S. Treasuries
- Unrealized market value gain or loss (i.e., market value-book value)

The quarterly report also shall (i) state compliance of the portfolio to the statement of investment policy, or manner in which the portfolio is not in compliance, (ii) include a statement denoting the ability of the Agency to meet its cash expenditure requirements for the next six months, or provide an explanation as to why sufficient money shall, or may, not be available.

XVI. SAFEKEEPING AND CUSTODY

All securities owned by the Agency shall be kept in safekeeping with "perfected interest" in the name of the Agency by a third-party bank trust department, acting as agent for the Agency under the terms of a custody agreement executed between the bank and the Agency.

All securities shall be received and delivered using standard delivery versus payment procedures.

XVII. PERFORMANCE STANDARDS

The performance of the Agency's investment portfolio will be measured on a total return basis. The portfolio's performance will be measured against the total return which could have been earned had the portfolio been invested for a comparable period with the LAIF. The portfolio's total return is reported in the Quarterly Investment Report.

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